

***Personal Income Tax:
Simplification and Poverty Reduction***

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and
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N.M. Taxation and Revenue Department**

**Presented to the
Revenue Stabilization and Tax Policy Committee**

**Second Meeting in 2008
July 3, 2008**

Summary of Presentation

- **Overview of Personal Income Tax Simplification**
- **Technical Aspects of Personal Income Tax Simplification**
- **Poverty Reduction**
 - **Task Force**
 - **Child Day Care Credit**
 - **Working Families Tax Credit**

Overview of Personal Income Tax Simplification

Legislation to simplify the personal income tax was introduced in the 2008 Legislative Session by Chairman Sandoval as HB 618

The proposal may be considered for recommendation by the Governor in the 2009 Legislative Session, but the Governor has not endorsed the proposal

Policy Goals

- **Reduce the time taxpayers devote to record keeping, tax return preparation, and return filing**
- **Reduce out-of-pocket payments to return preparers**
- **Increase fairness**

Description of Proposal

- **A new credit would replace the standard deduction, personal exemptions, NM low- and middle-income exemption, graduated rates, and the low income comprehensive tax rebate (LICTR)**
- **The new credit would be adjusted annually for inflation**
- **Taxpayers who itemize deductions would be able to deduct the excess of their itemized deductions over their standard deduction amount**
- **The definition of Modified Gross Income (MGI) would be simplified**
- **The portion of the new credit that replaces LICTR would begin at a constant amount (the maximum LICTR amount for the family size) to insure that very low income families do not lose benefits**
- **The single personal income tax rate would be 4.9%, since the first part of the new credit would replace the benefit of graduated rates**

Overview of Personal Income Tax Simplification -- Cont.

Effects of Proposal

- **The new credit would replace the standard deduction, personal exemptions, and NM low- and middle-income exemption, so these deductions would not be needed**
- **For most taxpayers, taxable income would simply be their federal adjusted gross income**
- **The computation of MGI would be much easier and require less record keeping for taxpayers eligible for refundable rebates and credits**
- **The marked-up tax forms on the following pages illustrate the simplification achieved by these changes**
- **The new credit would precisely replace for most taxpayers the tax benefits in the initial year of the standard deduction, personal exemptions, NM low- and middle-income exemption, graduated rates, and LICTR**
- **Some low-income taxpayers would have lower taxes or a larger refund because of the adjustment to the refundable portion of the new credit**
- **Some middle-income taxpayers who itemize deductions or receive the extra standard deduction for the elderly and blind would have lower taxes because the new credit replacing the low- and middle-income exemption would phase out with taxable income rather than AGI**
- **A few hundred taxpayers would have a tax increase because their new taxable income exceeds their AGI (due to such additions to AGI as tax-exempt interest on non-New Mexico bonds), so they are phased out more quickly in the new credit replacing the low- and middle-income exemption**
- **Over time, the proposal would lose an increasing amount of revenue because the new credit would be adjusted for inflation**
- **HB 618 was estimated to lose \$1.4 million in FY09 and \$17.1 million for the FY08-FY12 period**

2007 PIT-1 NEW MEXICO PERSONAL INCOME TAX

For the year January 1 - December 31, 2007,

or other fiscal year beginning _____ 2007, ending _____ 2008.



If amending use Form 2007 PIT-X.

☐ Check this box if address is new or changed.

Print your name (first, middle, last)

Print your spouse's name (first, middle, last) include spouse if married filing separately

Mailing Address

City, State and Zip Code

1. SOCIAL SECURITY NUMBER

Residency status:
complete for each taxpayer.

Enter "R" if RESIDENT:

"N" if NON-RESIDENT:

"F" if FIRST-YEAR RES:

"P" if PART-YEAR RES:

Check if taxpayer or
spouse named on the
return is deceased. Enter
date of death.☐☐

Enter claimant's name and SSN if the refund must be made payable to another person - Attach Form RPD-41033

2. EXEMPTIONS Number of Qualified Exemptions.

If you are a dependent of another taxpayer, enter 00.

3. EXTENSION OF TIME TO FILE - Mark the box if you have a federal or
state extension, and enter extension date. ☐ mm/dd/yyyy

4. FILING STATUS - Check only one box below.

- ☐ (1) Single
- ☐ (2) Married filing jointly
- ☐ (3) Married filing separately (Enter spouse's social security number above)
- ☐ (4) Head of household (Enter name of person qualifying you as head
of household if that person is not counted as a qualified exemption
on your federal return.)
- ☐ (5) Qualifying widow(er) with dependent child

6. ☐ Check this box if federal Form(s) 8886, Reportable Transaction
Disclosure Statement, is required to be attached.

5. DEPENDENTS: As listed on your federal return

(1) First name	Last name	(2) Dependent's social security number

7. FEDERAL ADJUSTED GROSS INCOME

(From line 38 of federal Form 1040, line 22 of Form 1040A or line 4 of Form 1040EZ)

8. Additions to federal income (From line 4 of PIT-ADJ; attach PIT-ADJ)..... +

9. Federal standard or itemized deduction amount (From line 40 of federal Form 1040, line 24 of Form
1040A or line 5 of Form 1040EZ)..... -9a. Check here if you itemized ☒10. Federal exemption amount (From line 42 of federal Form 1040, line 26 of Form 1040A, or
leave blank if you filed Form 1040EZ)..... -

11. New Mexico low- and middle-income tax exemption (See PIT-1 Instructions)..... -

12. Deductions/Exemptions from federal income (Line 20 of PIT-ADJ; attach PIT-ADJ)..... -
[Line 12 will include itemized deductions in excess of standard deductions.]

13. Medical care expense deduction (See PIT-1 Instructions)..... -

13a. Unreimbursed and uncompensated medical care expenses..... 13a 0014. NET NEW MEXICO TAXABLE INCOME (Add lines 7 and 8, then subtract lines 9, 10, 11, 12 and 13)..... =
[Tax net of non-refundable portions of the new credit.]

15. Tax on amount on line 14.....

If from the Rate Table, enter "RT",
if from line 15 of PIT-B, enter "B",
if from the Look Up Tables, enter "L"..... ☐

16. Additional amount for tax on lump-sum distributions (See PIT-1 Instructions)..... -

17. Credit for taxes paid to another state. You must have been a New Mexico resident during
all or part of the year. (See PIT-1 Instructions. Include a copy of other state's return.)..... -

18. Non-refundable credits from Schedule PIT-CR (Line 15 of PIT-CR; attach PIT-CR)..... =

19. NET NEW MEXICO INCOME TAX (Add lines 15 and 16 minus lines 17 and 18).....
(Cannot be less than zero.)

Continue on the next page.

2007 PIT-RC

NEW MEXICO REBATE AND CREDIT SCHEDULE

This schedule may be used by individuals who qualify for one or more refundable rebates and credits offered by New Mexico. Include Schedule PIT-RC with your Personal Income Tax Return, Form PIT-1.



Print your name (first, middle, last)

YOUR SOCIAL SECURITY NUMBER

SECTION I: QUALIFICATIONS FOR REBATES AND CREDITS REPORTED IN SECTIONS II THROUGH V. COMPLETE SECTION I TO CLAIM THE FOLLOWING REBATES AND CREDITS IN SECTIONS II THROUGH V. TO CLAIM ANY REFUNDABLE TAX CREDITS IN SECTION VI, YOU DO NOT NEED TO COMPLETE SECTION I.

Persons with Modified Gross Income of:

\$16,000 or less who are age 65 or older may qualify for the **Property Tax Rebate**.

\$21,424 or less may qualify for the **New Mexico Child Day Care Credit**.

\$22,000 or less may qualify for the **Low Income Comprehensive Tax Rebate**.

\$24,000 or less who live in Los Alamos County **ONLY** may qualify for a **Low Income Property Tax Rebate**. [credit for a portion of state and local tax burden.]

READ REBATE AND CREDIT SCHEDULE INSTRUCTIONS FOR COMPLETE ELIGIBILITY REQUIREMENTS.

- A. Were you a resident of New Mexico during any portion of the tax year? YES ☐ NO ☐
- B. Were you physically present in New Mexico for at least six months in 2007? YES ☐ NO ☐
- C. Were you a dependent of another taxpayer for income tax purposes in 2007? YES ☐ NO ☐

INMATE OF PUBLIC INSTITUTION

Check the appropriate box(es) if:

☐ TAXPAYER or ☐ SPOUSE was an inmate of a public institution in 2007 for a period of more than six months.

CALCULATE HOUSEHOLD MEMBERS - If you had children who were members of your household for tax year 2007, but did not qualify as your dependents for federal income tax purposes because of Public Assistance or Supplemental Security Income (SSI), enter the name, age and social security numbers of those minor children. Enter the number of additional minor children on line 1a.

1a. Minor Child's Name	Age	Social Security Number (if age 1 or older)	1b. Minor Child's Name	Age	Social Security Number (if age 1 or older)

1. Number of exemptions on line 2 of Form PIT-1
- 1d. Number of additional children listed at left
- 1e. ADD boxes 1 and 1d household members

CALCULATE ALLOWABLE HOUSEHOLD MEMBERS AND EXTRA EXEMPTIONS

2. a. Enter number of household members who DO NOT qualify. If all exemptions qualify, leave blank. 2a -
- (See PIT-RC Instructions)
- b. Subtract 2a from 1e. Number of allowable household members. 2b -
- c. Extra Exemption: Check box if you are blind: ☐ (If Married Filing Jointly) If your spouse is blind: ☐ Add the number of boxes checked. Enter here. 2c +
- d. Add lines 2b and 2c. 2d -
- e. If you are 65 or older enter "2". 2e +
- f. If Married Filing Jointly and your spouse is 65 or older enter "2". 2f +
- g. Add lines 2d, 2e and 2f. 2g -
- h. If you checked filing status (3): Married Filing Separately, on your Form PIT-1, enter the number of exemptions your spouse claimed on line 2g of his or her PIT-RC if applicable. 2h +
3. Add lines 2g and 2h. Enter here and on line 13a on page 2 of this form. 3 -

CALCULATE MODIFIED GROSS INCOME - Modified Gross Income, generally, is all income of the taxpayer and household members, both taxable and nontaxable, and undiminished by losses. See instructions for certain types of income that do not have to be included in modified gross income.

NOTE: If Married Filing Separately, be sure to include spouse's income.

4. Wages, salaries, tips, etc. [Federal adjusted gross income.]	4	00
5. Social Security benefits, pensions, annuities and Railroad Retirement [Benefits not included in AGI.]	5	00
6. Unemployment and Workers' Compensation benefits	6	00
7. Public assistance, TANF, welfare benefits and Supplemental Security Income (SSI)	7	00
8. Net profit from business, farm or rentals. If a loss, enter zero. Do not enter a negative number.	8	00
9. Capital gains undiminished by capital losses	9	00
10. Gifts or cash or marketable tangible items received. (Must be given a reasonable value.)	10	00
11. All other income such as interest, dividends, gambling winnings, insurance settlements, scholarships, grants, VA benefits, trust income and inheritance, alimony and child support	11	00
12. Modified Gross Income. (Add lines 4 through 11) Enter total on line 12 and on line 13 of page 2. (Must equal or exceed Federal Adjusted Gross Income from line 7 of Form PIT-1.)	12	00

2007 PIT-RC (page 2)

YOUR SOCIAL SECURITY NUMBER

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SECTION II: LOW INCOME COMPREHENSIVE TAX REBATE

(If line 13 is MORE than \$22,000, DO NOT COMPLETE this section.)

13. Enter Modified Gross Income from line 12.
- a. Enter total exemptions from line 3.
14. **Low Income Comprehensive Tax Rebate:** [Credit for a portion of state and local tax burden.]
On table 1 on page 5 RC, find the Modified Gross Income range that includes the amount on line 13, then move across to the column that matches the number of exemptions on line 13a. (Married couples filing separately must divide result by two.)

13		00
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13a		
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14		00
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SECTION III: FOR PERSONS 65 OR OLDER - PROPERTY TAX REBATE

(If line 13 is more than \$16,000, DO NOT COMPLETE this section.)

15. PROPERTY OWNED - Tax billed for the calendar year on principal place of residence.
16. PROPERTY RENTED
- a. Amount of rent paid during the tax year for principal place of residence.
- Check if the amount entered on line 16a includes rent paid on your behalf by a government entity.
- b. Multiply line 16a by .06 and enter the amount here.
17. REBATE AMOUNT
- a. Add lines 15 and 16b and enter the total here.
- b. Find the Modified Gross Income range, table 2 on page 6 RC, that corresponds to the amount on line 13. Read across to the matching number in the Maximum Property Tax Liability table, and enter amount here.
- c. Property Tax Rebate: Subtract line 17b from 17a. Do not enter more than \$250, or more than \$125 if Married Filing Separately.

15		00
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16a		00
-----	--	----

16b		00
-----	--	----

17a		00
-----	--	----

17b		00
-----	--	----

17c		00
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SECTION IV: ADDITIONAL LOW INCOME PROPERTY TAX REBATE for Los Alamos County residents only.

(If line 13 is over \$24,000, DO NOT COMPLETE this section.)

18. REBATE AMOUNT
- a. PROPERTY OWNED only. - Tax billed for the calendar year on principal place of residence.
- b. Find the Modified Gross Income range, table 3 on page 7 RC, that corresponds to the amount on line 13, above. Read across to the matching percentage in the Property Tax Rebate Percentage column and enter here.
- c. Multiply line 18a by line 18b and enter here. Do not enter more than \$350 or \$175 if Married Filing Separately.

18a		00
-----	--	----

18b		%
-----	--	---

18c		00
-----	--	----

SECTION V: NEW MEXICO CHILD DAY CARE CREDIT (If Modified Gross Income on line 13 is \$21,424

or less, use the worksheet on page 10 RC of the Instructions for 2007 PIT-RC Schedule to figure your available Child Day Care Credit. Attach the worksheet and Forms PIT-CG.)

19. Enter either the total of Column G or \$1,200, WHICHEVER IS LESS.
20. Number of qualified dependents under age 15 receiving child day care.
21. Enter portion of Federal Child Care Credit applied against your federal tax from Form 1040 or 1040A.
22. New Mexico child day care credit: Subtract line 21 from line 19. (Married couples filing separately must divide result by two.)

19		00
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20		00
----	--	----

21		00
----	--	----

22		00
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SECTION VI: REFUNDABLE TAX CREDITS

23. Refundable medical care credit for persons 65 or older. (See PIT-RC Instructions)
24. Approved film production tax credit claimed. (Attach RPD-41228)
25. Working families tax credit.
- 25a. The amount of Federal Earned Income Credit reported on your 2007 Federal Income Tax return.
26. Special needs adopted child tax credit.

23		00
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24		00
----	--	----

25		00
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25a		00
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26		00
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SECTION VII: TOTAL REBATES AND CREDITS CLAIMED

27		00
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Technical Aspects of Personal Income Tax Simplification

Progressivity under Current Law and the Proposal

- **Progressivity under current law is achieved primarily through certain family and child related tax benefits:**
 - **Standard deduction**
 - **Personal exemptions**
 - **NM low- and middle-income exemption**
 - **Graduated rates**
 - **LICTR**
- **The new credit in the proposal precisely replaces these tax benefits for most taxpayers in the initial year**
- **Nearly all of the taxpayers who would have a tax change in the initial year under the proposal are low- and middle-income taxpayers who would have a tax reduction**
- **The distribution table for HB 618 (following page) shows that all income classes would have a small tax reduction in the initial year, with most of the reduction at low- and middle-income levels**
- **Thus, the proposal would increase slightly the progressivity of the personal income tax in the initial year**
- **Inflation adjustment of the new credit after the initial year would provide relatively more benefit to low- and middle-income taxpayers, also providing some small amount of additional progressivity**
- **Note in particular that the replacement of the benefit of graduated rates with a credit, which then requires only a single tax rate, does not remove the benefit of graduated rates from the proposal – the benefit is simply provided in a different way**

**Distributional Table for
HB 618 Personal Income Tax Simplification Proposal¹**

(2006 Income Levels, 2008 Proposed Law)

AGI (000)	Number of Returns	Income (\$M)	Current Personal Income Tax ² (\$000)	Change in Personal Income Tax			
				Amount (\$000)	Percent of Total (%)	As A Percent of:	
						Current Tax (%)	Income (%)
0 - 20 ³	362,974	3,219	-16,561	-694	16.5	-4.19	-0.022
20 - 40	213,411	6,169	56,993	-1,058	25.1	-1.86	-0.017
40 - 60	116,624	5,739	110,262	-1,722	40.9	-1.56	-0.030
60 - 75	58,713	3,939	94,379	-424	10.1	-0.45	-0.011
75 - 100	63,541	5,480	144,374	-145	3.4	-0.10	-0.003
100 - 200	67,595	8,977	253,441	-46	1.1	-0.02	-0.001
200 & over	28,739	37,522	339,646	-2	0.0	0.00	0.000
Total ³	919,608	70,352	982,252	-4,209	100.0	-0.43	-0.006

Taxation and Revenue Department

February 1, 2008

Tax Research and Statistics Office

NOTE: Includes returns, income and income tax of nonresidents with income in New Mexico. Returns filed by nonresident taxpayers who reported no income within New Mexico are excluded.

¹ The table shows the distributional effects of the provisions of the bill that create a new credit that replaces the standard deduction, personal exemptions, the low- and middle-income exemption, graduated rates, and the low income comprehensive tax rebate (LICTR).

² Tax liability under 2008 law, reduced by LICTR but not by other rebates or credits (which are unchanged by the proposal).

³ Returns with negative incomes are excluded from the lowest income class but included in the total line.

Technical Aspects of Personal Income Tax Simplification – Cont.

Policy Flexibility

- **The proposal retains the basic links between the federal income tax and the New Mexico personal income tax**
- **This basic link is essential to reduce taxpayer record keeping and return preparation costs, and TRD administrative costs**
- **Current law deviates from federal law in making both additions and subtractions from federal adjusted gross income, in having a separate rate schedule, in allowing separate credits and rebates, and in other ways**
- **The personal income tax simplification proposal would remove the direct link between the value of the federal standard deduction and personal exemption amounts and the new credit amounts that would replace them**
- **Removing this direct link would provide New Mexico policy makers greater flexibility in designing family and child related tax benefits**
- **This added policy flexibility is an important benefit of the proposal**

Poverty Reduction

Task Force

- **Governor Richardson created the Poverty Reduction Task Force by Executive Order on May 28, 2008**
- **The purpose of the Task Force is to develop specific recommendations for legislative, regulatory and infrastructure initiatives to reduce poverty and income inequality in New Mexico**
- **The Task Force is required to research and consider:**
 - **Strategic initiatives to address hunger, housing and child care needs**
 - **Adequate compensation and a fair minimum wage**
 - **Tax credit changes to encourage work and reward work effort**
 - **More equitable eligibility requirements for unemployment benefits**
 - **Easing access to higher education and promoting completion**
 - **Creating better employment opportunities for all New Mexicans**
- **The Task Force consists of 25 leaders from non-profit and religious organizations focused on poverty issue, colleges and universities, and government agencies**
 - **Susan Tiano, professor of sociology at UNM, and Secretary Homans are the co-chairs of the Task Force**
- **The Task Force must present its recommended options to the Governor by September 5, 2008**
- **The Task Force is required to meet at least three times**
 - **The Task Force has met twice, and will meet five more times in July and August**

Poverty Reduction – Cont.

Task Force – Cont.

- **The Task Force is to consult with public and private individuals, experts and other entities as deemed necessary, and to consider public input from the general public in developing its recommended options**
 - **Representatives of all these groups have, or will, make presentations at Task Force meetings**

Child Day Care Credit

- **The cost of child care can be a significant barrier to entry into the workforce for workers with children, particularly for low-paid workers who might have to pay a large part of their earnings for child care**
- **Working women are particularly affected by child care costs, which average over \$5,000 per year**
- **The current New Mexico child day care credit is a refundable personal income tax credit of 40 percent of worker's child care expenses for children under age 15**
- **In 2008, New Mexico residents with income up to \$27,248 (corresponding to twice the federal minimum wage of \$6.55 beginning July 24) are eligible to claim the credit**
- **The allowable credit is reduced by the amount of any child and dependent care tax credit taken on the taxpayer's federal return.**
- **Governor Richardson announced on July 1, 2008 that he will propose legislation in the 2009 Session that will double the New Mexico child day care credit**
- **The proposal will increase the credit from \$1,200 to \$2,400 for families with three or more children, from \$960 to \$1,920 for families with two children, and from \$480 to \$960 for families with one child**

- **Families with income up to twice the New Mexico minimum wage – which increases to \$7.50 per hour on January 1, 2009 – will be eligible for the credit**
 - **The income limit corresponding to the \$7.50 per hour minimum wage is \$31,200**
- **To encourage work, the credit will be phased between \$32,000 and \$36,000 of income**
- **Expansion of the child day care credit will benefit a total of 12,320 working families: 8,600 working families who qualify for the credit under current law, plus an additional 3,720 newly eligible working families**
- **The estimated cost of the expansion is \$6.2 million in FY 2010**
- **A table comparing the major features of the current and proposed child day care credit and the federal child and dependent care tax credit appears on the following page**

**Major Features of the
New Mexico Child Day Care Credit and the
Federal Child and Dependent Care Tax Credit (CDCTC)**

Feature	New Mexico Child Day Care Credit		Federal CDCTC
	Current Law	Proposal	
Eligibility	Children under age 15	Children under age 15	Children under age 13 Disabled person (including spouse)
Income Limit	<u>Twice the federal minimum wage:</u> 2009: \$7.25 → \$30,160 (of MGI*) (2 x \$7.25 x 2,080hrs)	<u>Twice the NM minimum wage:</u> 2009: \$7.50 → \$31,200 (of AGI**) (2 x \$7.50 x 2,080hrs)	None
Income Phase Out	None (“cliff”)	<u>Based on AGI**</u> Start: \$32,000 End: \$36,000	N/A (no income limit)
Expense Limit	\$8 per day per child \$1,200 for each child \$3,000 for all children Earned income	\$2,400 for each child \$6,000 for all children Earned income	\$3,000 for one child \$6,000 for two or more children Earned income
Qualified Expenses reduced by	Only expenses paid out-of-pocket qualify	Only expenses paid out-of-pocket qualify	Employer paid or provided benefits and tax favored child care expenses
Credit %	40%	40%	<u>Sliding scale based on AGI**:</u> 35% for income below \$15,000 20% for income above \$43,000
Credit Reduced by	Federal CDCTC taken	Federal CDCTC taken	None
Refundable	Yes	Yes	No
* MGI is “modified gross income” which is a broad measure of income used in the New Mexico personal income tax for certain credits and rebates.			
** AGI is “adjusted gross income” as defined for federal income tax purposes.			

Working Families Tax Credit

- **The working families tax credit is a refundable personal income tax credit available to low- and middle-income residents of New Mexico**
 - **The credit was enacted in 2007 as part of HB 436**
- **The amount of the credit is equal to 8% of the federal earned income tax credit (EITC)**
- **In 2008, the maximum amount of working families tax credit for workers with two or more children is \$386; for a worker with one child is \$233; and for childless workers is \$35**
- **Over 200,000 New Mexico families will claim the working families tax credit in 2008**
 - **Nearly 160,000 of these working families have children who will receive over \$30 million in credits**
 - **Over 40,000 workers without children will receive nearly \$1 million in credits**
- **The Poverty Reduction Task Force will consider various options to increase the working families tax credit**